Scale research report - Initiation

ÖKOWORLD

Asset management

31 March 2017

Profits and principles – a pioneer in SRI

Socially responsible investment (SRI) is the buzzword in the financial industry today, but ÖKOWORLD (ÖWAG) is a pioneer with a 40-year history. ÖWAG is the parent company of a fund management group, an insurance broker and advisory service. Sustainable investment is ÖWAG's mission, explained by its 'profits and principles' strategy. Funds are managed through a disciplined SRI process with a consistent track record, leading to strong rankings from major rating agencies and numerous awards. Management expects the strong brand and investment results to propel AUM beyond €1bn in 2017, cementing healthy margins and steady dividend growth for ÖWAG.

Pioneer in SRI

ÖWAG is the German pioneer in SRI, having created a strong brand and a well-diversified fund portfolio, attracting German mainly retail and selected institutional clients. Fuelled by consistently positive historical returns, these funds have generated a growing and diversified fee income stream for ÖWAG. ÖWAG's funds continue to grow: by February 2017, assets under management (AUM) reached €900m, up 12% vs December 2016 including €100m in the Growing Markets vehicle, launched in 2012.

Economies of scale through €1bn AUM

ÖWAG is close to reaching €1bn AUM (€928m as of March 2017) helped by €77m in fresh funds in 2016 and €27m in the year to date. This growth underlines the trust in ÖWAG's asset management investment principles. Scandals related to non-compliance with good SRI principles (such as VW) appear to have channelled new clients to ÖWAG. While this should lead to higher revenues in 2016, operating costs are actually 10% lower than in 2013,when AUM were 50% lower. .

Valuation: Strong cash generation

ÖWAG has a proven track record of strong cash generation given the asset-light business model. ÖWAG pays out attractive dividends to its shareholders (indicated dividend yield currently at 4.2%, four-year CAGR 14%). Over the past decade, ÖWAG's dividend yield was almost 200% of the SDAX 10-year arithmetic average of 2.39%. The shares trade close to a market rating despite higher potential EPS growth and they trade at a substantial discount to a selected peer group. The company indicated strong preliminary 2016 results in its key business segments, with full financial details due in May 2017, suggesting an environment of positive newsflow.

Historical financials

Year end	Revenue (€m)	Net profit (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/13	9.3	2.3	0.30	0.36	35.7	3.4
12/14	10.3	3.3	0.42	0.40	25.5	3.7
12/15	12.7	3.4	0.44	0.45	24.3	4.2

Source: ÖKOWORLD reports

Price*	**€10.70**
Market cap**	**€87m**

*As at 30 March 2017

**Market cap based on 8.15m shares issued, but only 3.95m non-voting preference shares listed on the stock market.

Share price graph

Share details

Code	VVV3 GY/VVVGn p. DE
Listing	Deutsche Börse Scale
Shares in issue	4m
Last reported net cash at December 2015	€0.8m

Business description

ÖKOWORLD is a listed holding company for asset management, insurance brokerage and advisory services. It is one of Germany's pioneers in SRI and ethical-ecological investment advisory, with its nucleus reaching back to 1975. It has preserved its successful core investment principles and reached AUM of €900m in February 2017.

Bull

- A strong brand with established distribution channels and constant AUM growth.
- SRI becoming mainstream with more companies following SRI rules.
- Proven track record and numerous awards.

Bear

- Despite long history, still relatively low AUM.
- Strong dependency on performance fees.
- Only preference shares available to investors.

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Company description: Pioneering SRI

A history of SRI

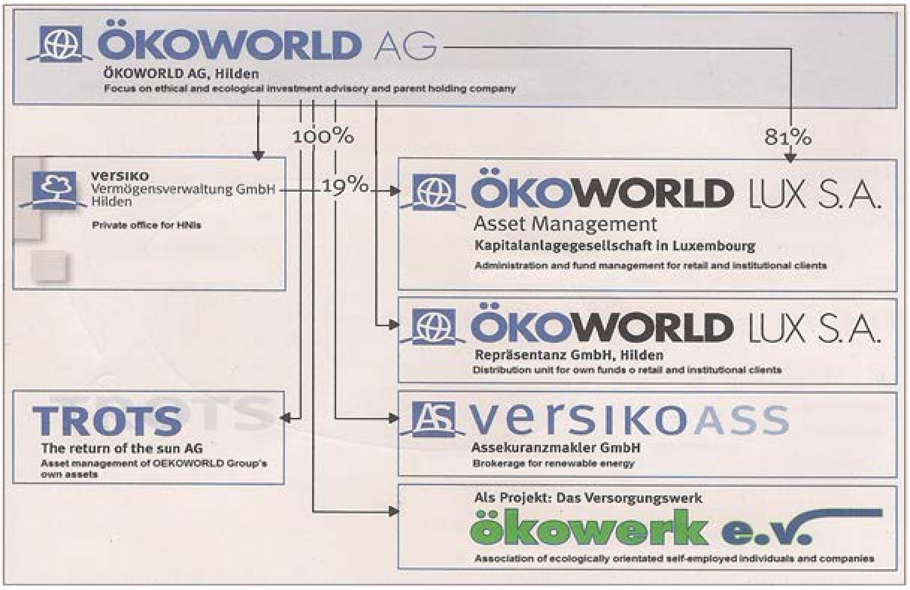
Modern socially responsible investment (SRI) has its roots in the 1960s, when many political and social issues emerged after WW2. A rising number of investors realised that investments have impacts on both the fabric and consciousness of society. Investment capital can finance either socially desirable or socially destructive businesses. The trend gathered pace in the 1980s with events such as the Bhopal, Chernobyl and Exxon Valdez incidents. A sustainable and responsible approach to investing includes both quantitative and qualitative analysis. All investors look for profit potential, but responsible investors also integrate an evaluation of environment, social and governance (ESG) factors.

In the US, the “U.S. Sustainable, Responsible, and Impact Investing Trends” report screens the SRI market from the perspective of the investor. In the 17 years from the first Trends Report in 1995 and the most recent report in 2014, responsibly managed asset pools have grown from $639bn to over $6.57trn, an increase of 929% and a compound annual growth rate of 13.1%. SRI has become a major investment scheme (source: www.sriconference.com).

In 2006, the UN defined six major principles in its Principles for Responsible Investment (PRI) initiative; see: www.unpri.org/about/the-six-principles.

Company structure

Exhibit 1: Organisation of the ÖKOWORLD group of companies



Source: ÖKOWORLD Newsletter 3/2016, page 12; Edison Investment Research adjustments

ÖWAG is a pioneer in bringing ethical and ecological financial solutions to the German market. It formed its principles early in the 1970s, refined them in the 1990s and has employed them since then. The company combines these ethical principles with the pursuit of sustainable returns. Over the years, the company has achieved a track record in operating successfully in the SRI market environment, both as fund manager and financial advisor.

ÖKOWORLD (ÖWAG) is the listed parent company of the ÖKOWORLD group of companies. On 20 December 2013 ÖWAG was born out of versiko, which the current CEO Alfred Platow and Klaus Odenthal founded in 1975. The name change reflected the growth of the Luxembourg-based fund subsidiary ÖKOWORLD Lux and the associated brand. The original insurance broker versiko offered a wide range of products, including pension schemes to sustainable companies. These schemes were offered through ökowerk e.V. ÖKOWORLD Lux SA was launched to provide the investment products for ökowerk and other clients.

Currently, in addition to the fund management and related activities, ÖWAG owns an insurance brokerage business – focused purely on pension schemes – and an asset advisory service for high net worth individuals (HNWIs), who have a strong SRI orientation. This business is executed by ÖWAG's 100% holding in versiko ASS.

The parent company owns directly or indirectly 100% of each of its operating subsidiaries. ÖKOWORLD, the listed unit, additionally provides advisory services to its subsidiaries. ÖWAG's shares have been listed on the SCALE segment as of March 2017. Given the size of the company, consolidated IFRS (or German GAAP) accounts are not required. For that reason, ÖWAG reports the results of the single listed parent/holding company. Hence, all income streams are the fees received by ÖWAG after costs incurred by the subsidiaries. Given the underlying growth of its core business streams, it is likely that ÖWAG will shift focus and start reporting fully consolidated accounts in due course.

The focus today is clearly on SRI driven fund management, executed by ÖKOWORLD Lux SA. Since 1996, it has launched six funds, which mostly cover global equity and are actively managed through a special stock-picking approach (see details further down).

SRI definitions are manifold in the financial industry, partly based on the UN PRI initiative. ÖWAG started early in defining its own principles. These are used across the firm, mainly as approval and rejection principles in the fund management arm. The stability of the SRI definitions helps the research team and the investment committee to implement them across the fund family, with success: over the years, the group's AUM has increased steadily, providing a steady growth for fee income. ÖWAG provides its research exclusively for its own fund management group.

Exhibit 2: ÖWAG's ÖKOWORLD Lux SA funds

ÖKOWORLD funds AUM, €m	2013	2014	2015	2014 % change	2015 % change
ÖKOWORLD ÖKOVISION Classic	390.3	427.5	513	9.5%	20.0%
ÖKOWORLD ÖKOVISION Garant 20	20.5	15.3	16.3	-25.4%	6.5%
ÖKOWORLD Klima	13.9	15.7	17.9	12.9%	14.0%
ÖKOWORLD Water for Life	11.3	13.4	15.3	18.6%	14.2%
ÖKOWORLD Growing Markets 2.0	18.3	42.4	65.8	131.7%	55.2%
ÖKOWORLD ÖWAGtrust	13.1	23	26.6	75.6%	15.7%
Total €m	467.4	537.3	654.9	15.0%	21.9%

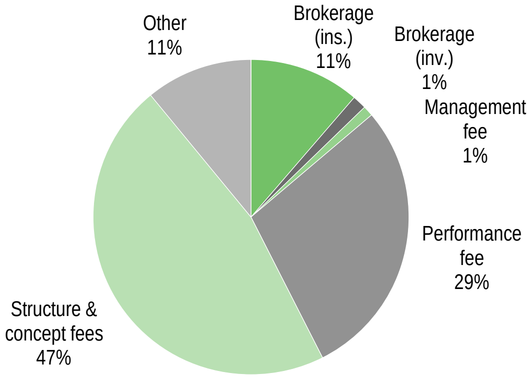
ÖKOWORLD funds units	2013	2014	2015	2014 % change	2015 % change
ÖKOWORLD ÖKOVISION Classic	3516	3607	3698	2.6%	2.5%
ÖKOWORLD ÖKOVISION Garant 20	191	137	146	-28.3%	6.6%
ÖWAGworl Klima	341	341	343	0.0%	0.6%
ÖKOWORLD Water for Life	91	97	103	6.6%	6.2%
ÖKOWORLD Growing Markets 2.0	167	321	464	92.2%	44.5%
ÖKOWORLD ÖWAGtrust	117	193	215	65.0%	11.4%
Total units	4423	4696	4969	6.2%	5.8%

Source: ÖKOWORLD ÖKOVISION annual fund brochure 2016

Comparing the growth in units in 2014 and 2015 with the growth in AUM indicates that ÖWAG's increase in AUM was mainly a function of strong performance, in particular with the Classic and the Klima fund. A strong increase in net funds and performance was recorded for Growing Markets 2.0 and the multi asset ÖKOtrust Fund. All activities related to distribution are centralised in Hilden, the site of the parent company. Its products and services therefore are best described as 'ambassadors of humanity'. As a parent/holding company, ÖWAG's business model is based on fees, which are received as compensation for services to its subsidiaries.

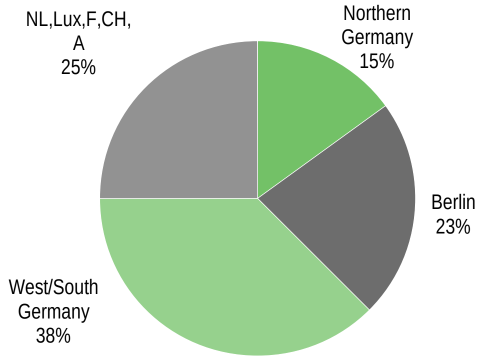
Revenues by segment/division

Exhibit 3: ÖWAG revenues by segment 2015



Source: ÖKOWORLD

Exhibit 4: Fund investors by region 2016



Source: ÖKOWORLD

Insurance brokerage (11% of 2015 revenues): Insurance brokerage is the historic business core of ÖWAG. The current range has an exclusive focus on pension schemes. This said, the income generation is mainly based on retention fees, a result of previous broader activities. As these contracts are based on long-term, annual contributions, ÖWAG should see a generally increasing income stream reflecting wage inflation. In 2016 management said that business increased by 20%, mainly in Q416, due to the new focus on individual and corporate pension schemes. This implies a new level of revenues around €1.6m as the basis for the following years.

Investment brokerage (1% of 2015 revenue): Investment brokerage is also part of the historic business core; here, ÖWAG sold third-party investment products to its clients. This business remains stable, as clients tend to continue investing with ÖWAG over a long period of time. The fees received by ÖWAG are essentially the retention fees of the investment brokerage and are therefore expected to grow steadily.

Performance fee (29% of 2015 revenue): The key earnings driver has been the performance fee: here, the company specific 'one & only' research approach, focusing on long-term, sustainable returns, resulted in a 65% increase in performance fees to €3.4m in 2015. Given the strong performance record, it is hoped that these fees will continue to grow. ÖWAG receives 45% of the performance fee, as the rest is kept within the fund management unit to cover its costs.

The performance fees are based on the quarterly high-water mark performance of the funds at the end of each quarter. The fee is based on absolute performance, given the structure and outline of the funds (see below). Fund management receives 10% of each increase in performance at the quarter end, assuming a positive performance against the previous high-water mark is achieved.

In 2016, ÖWAG received performance fee income on the total performance of the fund. However, against major indices, ÖWAG's ÖKOWORLD Classic underperformed against key global indices.

Structuring and conception fee (47% of 2015 revenue): The largest income source is the segment 'structuring & conception'; this segment is reasonably stable and accounted for annual revenue of €4.8-5.5m over the past five years. This represented 77% of revenues in 2012, compared to just under 50% in 2015.

Structuring fees are essentially basic retention fees, linked to the AUM of the fund management subsidiary. They are paid out on the base of the invested capital. ÖWAG's fee structure is twofold:

- A 5% upfront fee is paid by investors to ÖKOWORLD Lux (mainly paid to distributors). ÖWAG retains those fees, which are generated by its own salesforce. This, however, is minimal for the time being, as ÖWAG focuses on third-party distribution.
- A 1.76% annual management fee, earned by ÖKOWORLD Lux SA, of which ÖWAG receives 45% with the balance being used to pay for the costs of the fund management in Luxembourg.

As ÖWAG mainly distributes through third parties, 80% of these received fees (ie the 45%) are paid out in form of retention fees to these distributors representing just 36% of total retention fees earned by the fund management unit. In ÖWAG's accounts, these payments to the distributors are shown as 'material expenses'. The remainder is kept by ÖWAG.

Performance and management fees are based on the funds' performance and retention of AUM. Here, ÖWAG's main task is to market the success and the special SRI approach of the funds to retail distribution networks and institutions. More than 55,000 retail clients have been attracted through distribution platforms, namely:

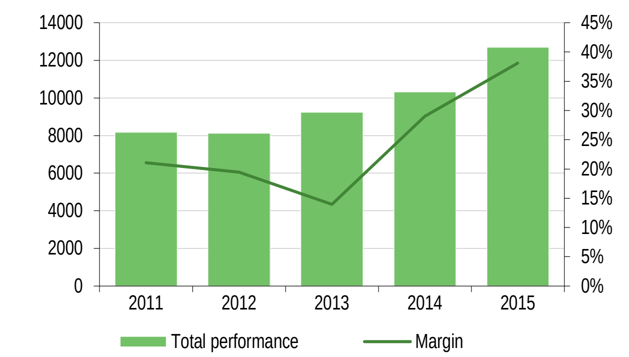
- five German insurance companies, who sell fund-related third-party life insurance policies;
- 120 co-operative banks in Germany; and
- local savings and loans banks.

Over the years, ÖWAG has developed an online approach with the help of ING DIBA (approximately €50m AUM) and Comdirect (approximately €40m AUM). The online channel is anticipated to boost fresh funds in the next years. The vast majority of AUM is held by retail clients, mainly (75%) in Germany. Of these, a focus is on doctors and medical service professionals, ie higher and stable income individuals. As they are not financially savvy, the distribution relies on the advisors' ability to explain the ÖWAG funds and the desire of the clients to seek such SRI investments. ÖWAG's funds are also held by institutions. These are mainly insurance companies, which distribute the funds. The company is not aware of any institution holding a significant amount, ie >€3m, in its shares.

Strategy

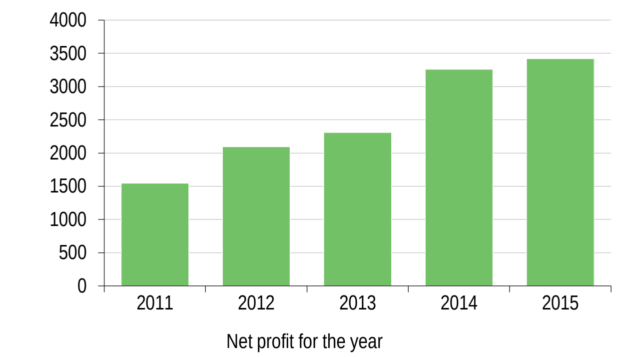
Scale economies

Exhibit 5: Revenue and margin progression (€000s)



Source: ÖKOWORLD accounts

Exhibit 6: Net profit progression 2011-15 (€000s)



Source: ÖKOWORLD accounts

ÖWAG's business model is fee based and highly scalable: while revenues almost doubled in the period between 2011 and 2015, its personnel costs remained unchanged at €2m, while other costs only rose by 33%. As a result, net profit more than doubled to €3.4m in 2015.

ÖWAG's success is dependent on the success of its fund management, as performance fees are the key income growth driver. The fund management is known for its strict focus on its investment principles; following recent scandals from non-compliance with SRI principles, many investors are realising that SRI actually is a protection factor from capital losses. Excluding performance fees, ÖWAG's annual revenues hovered around €8.4m in the five-year period between 2011 and 2015.

Recent newsflow and upcoming catalysts

The company's latest newsflow on its operations, dated September 2016, reported a significant increase in business for the first six months of the year: net profits rose by more than 75% to €5.8m, clearly boosted by the strong performance of the fund business. While the company reported AUM of €716m as of 30 June 2015, a year later AUM had grown to around €800m, despite a difficult start to the year.

On 31 January 2017 ÖWAG reported further growth in AUM to €838m (+11% y-o-y) and also confirmed the positive trend in its insurance brokerage and advisory business, where revenues grew 20% in the year. By 20 February 2017, the company reported AUM of more than €900m, suggesting that the next target of €1bn AUM could be reached by H117. The company confirmed that 2016 had been a very successful year and said that it would be shown in a growth in net profit and dividend.

While ÖWAG is not required to issue consolidated accounts (neither under German GAAP nor under IFRS), it provided guidance for a 'quasi' consolidated income for 2016: consolidated net profits have reached €10.7m (after €3.3m income taxes).

ÖWAG is due to report final and detailed 2016 results in May 2017, coupled with the dividend proposal. Following the positive results in H116 and the reported continuation of business success in the run of the year, we assume these will reflect the success of ÖWAG's two key business segments.

Market overview

SRI investments have become more mainstream in the past 10 years. In 2006, the UN assisted the launch of six 'Principles for Responsible Investing'. In the last 10 years, this initiative attracted 1,500 signatories with AUM of over $60trn. This trend simply shows that investors are becoming more aware of SRI and with this collective statement can influence companies to act accordingly. While in the late 1990s, just a handful of S&P500 companies issued sustainability reports, now some 80% are doing it (source: Barrons.com, 8 October 2016).

A main concern for a long period was that SRI excludes superior financial returns. However, according to PricewaterhouseCoopers, "the empirical evidence is clear: by investing responsibly the suggestion is that there is no sacrifice in financial return, on the contrary, recent research shows that long-term financial returns are less volatile and above average. Evidence is delivered by two meta-studies, one conducted by Mercer and one by Deutsche Bank" (source: PwC Switzerland Responsible investing: from a niche strategy to a global trend, 2015). The Deutsche Bank study of 100 global investment cases states hat environment social governance-orientated companies "are more stable in value and less prone to crises. They correlate with superior risk-adjusted returns at a securities level" (source: PwC).

ÖWAG invests globally, but its funds are chiefly distributed in Germany. By the end of Q316, 409 SRI funds with aggregated AUM of €65bn (400 funds with €45bn by the end of 2015) were registered for distribution in Germany (source: www.nachhaltiges-investment.org/News/Marktberichte.aspx). Of these, there were 217 funds with AUM of €33bn invested in equities (ie on average €150m/fund), 86 funds with AUM of €13bn in bonds and 74 funds with €13bn in multi-assets. Nineteen SRI ETFs with AUM of €2.5bn complete the list.

ÖWAG's funds currently have about €1bn AUM, ie they represent 1.5% of the overall German SRI market, but about 3% of the equities investment market, where ÖWAG is mainly present. With more than €550m AUM, its flagship fund 'ÖKOWORLD Classic' is about four times the average fund size. In terms of return (>70%) over five years (through to July 2016), ÖWAG's Classic fund had outperformed its main competitor funds of JSS, Pioneer, Swisscanto, Carmignac, DJE, DWS and M&G, while showing low volatility of 14% (over 260 weeks).

Currently, in SRI, ETFs are less of a competitive force and active management maintains a strong position.

While the number of SRI funds is increasing, ÖWAG maintains its top rankings even among the increased competition. ÖKOWORLD compares its performance against a selected peer group, mainly over a period of five years. Here, ÖKOWORLD Classic showed an annual average performance of 12.7% (after costs) as of 10 January 2017, beating its main rivals Swisscanto Green Equities, JSS OEKOSAR EQ-P, ÖWAG-Aktienfonds, Pioneer Funds Global Ecology-A€AC and Spängler IQAM EC ST-A.

Management, organisation and corporate governance

Supervisory board and management board

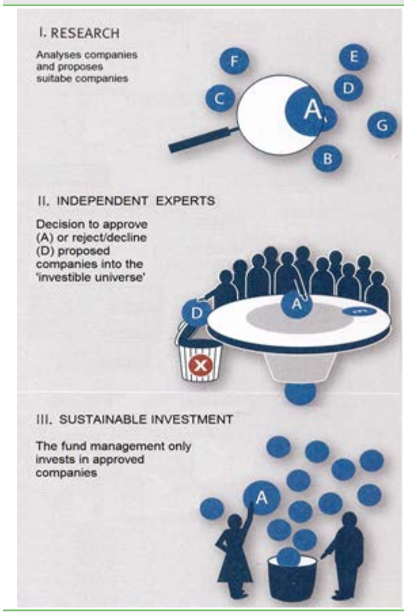
The management consists of Alfred Platow and Michael Duesberg. While Platow is a German SRI pioneer, who started the business in 1975, Duesberg is an IT specialist and fund manager by training. Together they combine the qualities required to run a slim and streamlined operation.

ÖWAG's key income source is asset management fee income. Therefore, we have looked at the fund management process in more detail, as it employs a special 'selection' tool through an independent advisory board.

The fund management body

The investment management team at ÖKOWORLD Lux SA selects its investments out of the investable pool of companies, pre-selected by the research board and vetted by the investment committee with the help of the scientific support board. The 'qualitative' selection under the company's own SRI principles has already been done and therefore the investment management can focus purely on the financial performance. This structure allows ÖWAG to market and promote funds that consistently rank among the top performing funds in the industry.

Exhibit 7: ÖKOWORLD Lux SA investment process



The fund management team is continuously screening the global equity markets for investment ideas. Once a potential candidate is found, the investment research team starts analysing the company, using:

- fundamental financials research techniques, and
- ÖKOVISION 'profits and principles' strategy

The research department then passes on its findings to the investment committee of independent experts (which has 11 members). These again check the investment proposal on all of the OKÖWORLD principles and either approve or reject the company. If approved, it will become part of the 'investible universe', where it qualifies companies as first and second tier. The first tier typically accounts for around 25% of the investible universe.

The fund management team selects equities from that 'investible universe'. It applies portfolio construction methods, optimal country and sector weightings and analysis the market for the best timing. It also applies a selection under a large/mid/small cap consideration and is constructing the portfolio under stock marketability considerations. Typically, the portfolio selection mirrors the quality standards (first and second tier) of the investible universe.

Source: ÖKOWORLD ÖKOVISION

EDISON

To illustrate the work of the group, we look at ÖWAG's flagship fund ÖKOWORLD ÖKOVISION Classic.

ÖKOWORLD fund management employs a stock-picking approach. This drives the performance fee income, which is not based on relative performance against an index but on absolute performance. The investment universe is global and covers a broad market cap spectrum. ÖKOWORLD fund management invests according to several criteria, which are difficult to cluster into 'value' or 'growth' categories. The fund management aims to identify stocks that achieve earnings even in specific market conditions, such as rising energy costs. Hence energy efficiency is an important criterion. In a recent study conducted by the South Pole Group of Switzerland, stocks in the ÖKOWORLD Classic fund exhibited a 73% better CO_2 emission than the MSCI World Index. Other criteria include companies with unidentified growth potential in ecological areas.

Exhibit 8: Universe and fund by market cap, January 2017

	Universe	Fund
> €10bn	25%	42%
€5-10bn	16%	24%
€1-5bn	32%	28%
€0.5-1bn	7%	1%
<€0.5bn	5%	0%
Cash	15%	5%

Source: ÖKOWORLD

Exhibit 9: Top six currencies and sectors, January 2017

Currency	FX %	Sector	Sector %
US dollar	43%	Health	20%
Euro	26%	Energy	18%
Japanese yen	7%	IT & communication	13%
Swiss franc	6%	Construction	10%
British pound	4%	Fair trade	8%
Danish krone	4%	Mobility	8%

Source: ÖKOWORLD

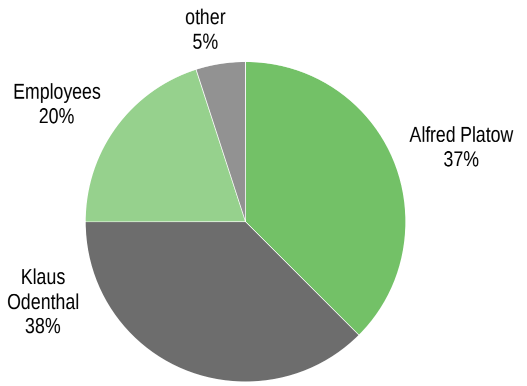
Exhibit 10: Top 10 positions as of January 2017

Company	Weight %	Company	Weight %
NVIDIA	3.7%	Yes Bank	1.9%
Union Pacific	2.4%	Waste Mgt	1.8%
CSX Corp	2.3%	Applied Mat.	1.8%
MICRON Tech.	2.2%	Symantec	1.8%
Philips NV	1.9%	Actelion	1.8%

Source: ÖKOWORLD

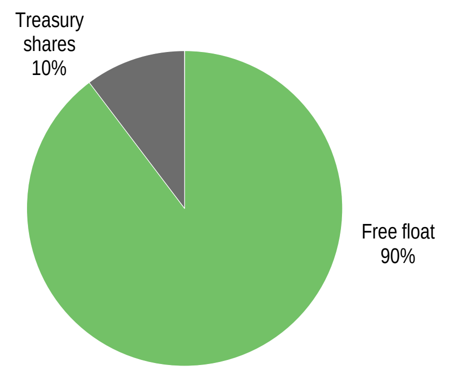
Shareholders and free float

Exhibit 11: Voting shares (non-listed)



Source: Edison Investment Research

Exhibit 12: Preference shares (listed)



Source: Edison Investment Research

The company's equity is divided into two share classes: 4.20m voting shares (not listed) and 3.95m preference shares (listed). ÖWAG's ordinary shares are held primarily (75%) by the founders of the company, CEO Platow and the co-founder Odenthal. All other ordinary shares were held by employees, but family splits and departures led to 5% of these shares now being held by non-employees. All preference shares are free float, mainly held by clients (both of the fund and the insurance business segment).They are entitled to dividends. ÖWAG can track these, as its shares are 'Namesaktien', ie registered shares. Of these, some shares are held by the distributing insurance companies. Around 10% of the preference shares are treasury stock, which was bought back by the company in previous years. These shares are not entitled to dividends.

Given the fact that the ordinary shares are not listed and the company holds around 408,000 preference shares as treasury stock, the actual free float is 43% of total shares in issue.

Financials

ÖWAG is essentially an asset light fund distributor with most of its revenues originated directly or indirectly from the owned fund business in the forms of fees. This income is sustainable in so far that the funds consistently rank among top performers, generating performance fee income in addition to management fees. However performance fees can be impacted by near term general market conditions.

The four-year revenue CAGR shows an annual 12% growth, coupled with a 32% PBT growth rate: a sign of healthy economies of scale at work. EPS growth was 23% in the same period, leading to a 14% CAGR of dividends. The latter is explained by the fact that ÖWAG paid out 200% of EPS as dividends in 2011, the base year for the CAGR calculation.

Exhibit 13: Financial summary

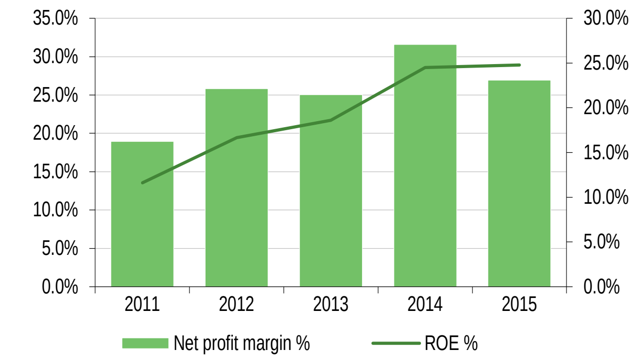
€000s	2011	2012	2013	2014	2015
Year end 31 December	HGB *	HGB	HGB	HGB	HGB
Income statement					
Revenue	8,171	8,115	9,229	10,324	12,687
Profit Before Tax (as reported)	1,545	2,092	2,342	3,743	4,635
Net income (as reported)	1,547	2,096	2,311	3,260	3,419
EPS (as reported) – (€)	0.19	0.27	0.30	0.42	0.44
Dividend per pref share (€)	0.27	0.36	0.36	0.40	0.45
Balance sheet					
Total non-current assets	8,139	9,298	9,050	9,236	7,907
Total current assets	10,213	8,285	8,051	9,738	11,607
Total assets	18,371	17,610	17,115	19,004	19,555
Total non-current liabilities	4,052	4,086	3,402	4,158	5,017
Total current liabilities	1000	942	1258	1367	561
Total liabilities	5,052	5,028	4,660	5,525	5,578
Net Assets	13,319	12,582	12,455	13,479	13,977
Shareholder equity	13,319	12,582	12,420	13,314	13,807
Cash flow					
Net cash from operating activities	1,332	2,913	2,433	3,563	5,404
Net cash from investing activities	-208	-762	3	-336	1,942
Net cash from financing activities	-369	-2,833	-2,474	-2,365	-2,926
Net cash flow	755	-682	-38	862	4,420
Cash & cash equivalent end of year	1,844	1,162	1,124	1,986	6,406

Source: ÖKOWORLD. Note: *HGB = German GAAP, non-consolidated single accounts of parent company.

Income statement

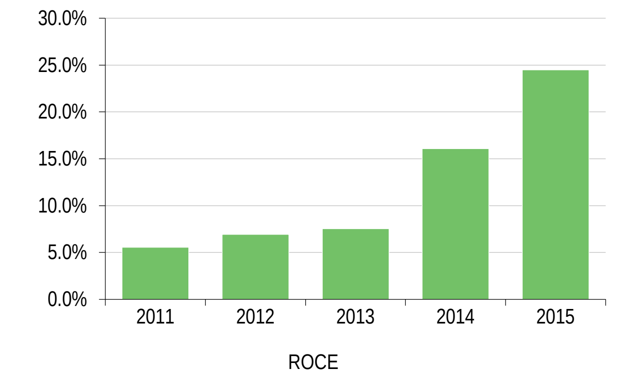
ÖWAG's business model is based on strong cash generation in order to provide sustainable dividends and dividend growth. Over the past five years, its net profit margin grew to reach levels between 25% and 32%, while ROE more than doubled from 11.6% in 2011 to almost 25% in 2015. Key drivers were the strong performance fee income and strict cost management. ÖWAG's personnel costs remained basically unchanged throughout the five-year period. The profit evolution is best characterised by the ROE progression: since 2011, ROE has grown fivefold to c.25%.

Exhibit 14: Profitability 2011-15



Source: ÖKOWORLD

Exhibit 15: Profitability 2011-15



Source: ÖKOWORLD

Balance sheet and cash flow

ÖWAG's net debt stood at around the €3.5m mark for most of the last five years, but turned into net cash of €828k in 2015. The main reason was the disposal of non-core businesses and a reduction of receivables. In addition, due to HGB accounting, there has been no valuation adjustment of its financial holdings, namely the ÖKOWORLD Lux SA. The holdings in associated companies remained at €7.1m. Assuming a 3-5% value of the AUM managed by the fund, a potential fair value might be in the range of €30-45m. While profits grew substantially, the generous dividend policy left total equity almost unchanged at €13.8m.

On the cash flow side, ÖWAG distributes the majority of its annual cash flow in the form of dividends. After the 2014 dividend payment, the company's current cash reserves are sufficient to grant cover one future year's dividend payment.

Exhibit 16: Cash flow

€000	2011	2012	2013	2014	2015
Revenues	8,171	8,115	9,229	10,324	12,687
EBITDA	1,723	1,580	1,290	2,994	4,834
Cash flow operational	1,332	2,913	2,433	3,563	5,404
Cash flow investment	(208)	(762)	3	(336)	1,942
Cash flow financial	(369)	(2,833)	(2,474)	(2,365)	(2,926)
Free cash flow	755	(682)	(38)	862	4,420
Cash (end of period)	1,844	1,162	1,124	1,986	6,406

Source: ÖKOWORLD accounts, ODDO

ÖWAG focuses on long-term performance for its shareholders. A Reuters analysis confirms this approach. ÖWAG's five-year ROA is threefold the industry average, and its five-year ROI more than twofold. Although its dividend yield beats the industry and the sector, the five-year dividend growth rate is also superior to that of the industry.

Exhibit 17: ÖKOWORLD operating performance (%)

Item	ÖKOWORLD	Industry	Sector
Return on assets (TTM)	12.51	3.97	2.39
Return on assets – 5-year average	13.68	4.55	2.87
Return on investment (TTM)	13.23	5.12	0.4
Return on investment – 5-year average	14.75	6.94	0.58
Return on equity (TTM)	17.71	9.07	15.27
Return on equity – 5-year average	19.32	9.87	20.44
Dividend yield	4.20	2.51	2.10
Dividend yield – 5-year average	5.62	2.13	0.70
Dividend 5-year growth rate	11.60	7.82	4.14

Source: Reuters

Valuation

Historically, ÖWAG has traded at P/E ratios between 13x and 17x, which appears to be around market average. However, its dividend yield is far superior to the 10-year SDAX arithmetic average of 2.4%. Given the strong net profit CAGR of 22%, well above the market average, a certain premium to the average market valuation appears to be justifiable. ÖWAG continues to provide a strong dividend stream to its shareholders.

Peer valuation

A peer group valuation appears to be difficult, as directly comparable business models are not seen in the market. In most cases, the asset management units are not listed, while the funds are listed and trade around NAV.

Companies with both business structures might include Patrizia Immobilien (real estate asset management in separate funds, asset structuring and advisory); MLP (an insurance broker and asset advisory, running its own fund group); IMPAX Asset Management (managing and advising on approximately US$6.8bn primarily for institutional clients); and AZIMUT asset management (specialised in asset management, the group offers financial advisory services for investors, primarily through its advisor networks).

Exhibit 18: Peer group comparison

	Market cap	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2017e	2018e	2017e	2018e	2017e	2018e
MLP	€571m	25.1	22.7	15.7	15.1	3.10	3.30
Patrizia Immobilien	$1,480m	21.5	19.8	14.3	13.3	2.00	2.30
IMPAX Asset Management	£27m	25.4	23.2	14.4	13	1.50	1.70
AZIMUT	€2,318m	24.3	19.9	16.3	13.9	0.60	0.70
Peer group average		24	21.5	15.3	13.9	1.60	1.80
ÖKOWORLD	€86m	16.1	15.7	11.2	10.6	4.50	4.50
Premium/(discount) to peer group		-32.60%	-27.00%	-26.70%	-23.80%		

Source: Bloomberg. Note: Prices as at 15 March 2017. ÖWAG dividend yield based on 2015 dividend.

Sensitivities

ÖWAG is essentially a fund management company (in terms of fee income, while the funds are managed by a 100% subsidiary) and an insurance brokerage firm. Its income stream therefore depends on the performance of its fund management and the stability of the economy. Key sensitivities include:

- **Performance fee income:**
  - Performance fees are the main driver for ÖWAG's revenue and income growth. ÖWAG's operating result performance is reliant on the absolute success of the fund management activity. This success is reflected in the performance fee income. Without this fee, ÖWAG's revenues would hover around €8.5m. This implies pre-tax profits of c €500-750k, or €375-560k net 25% tax, leading to EPS of c €0.06. This figure, however, needs to be adjusted for ÖWAG's forward carried profits, which were c €1m on average over the past five years. Based on an assumed AUM of €1bn by the end of 2017, a 1% absolute quarterly performance equals €10m performance and €1m performance fee at the fund management group and €450,000 for ÖWAG.
- **Macro issues:**
  - Economic downturns could affect the brokerage business, as insurance fees might be lower and demand for the type of service might decline. While ÖWAG focuses on the higher educated and hence higher income bracket of clients, the impact might still be notable.

- Higher interest rates affect stock markets in general. Current market uncertainties and the change in the political landscape (higher defence budgets globally, denial of global warming, migration issues) might lead investors to turn away from supporting ecological and ethical considerations, which might deter performance fee income.
- **Technical issues:**
  - The preference share structure might deter new investor groups, which typically aim for voting share classes. This might lead to lower than anticipated investor interest.
- **Regulatory issues:**
  - ÖWAG's funds are listed and managed in Luxembourg. Given the current uncertainties within the European Union, stricter distribution rules might be put in place by regulatory bodies, impairing the marketing activities of ÖWAG.
- **Distribution:**
  - Certain changes in the distribution landscape (online, social media, platforms) might lure away certain new investor groups, impairing ÖWAG's fund growth.

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